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CENTRAL INTELLIGENCE AGENCY**

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State Dept. review completed

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1. SPECULATION ON POSSIBLE SOVIET ANNOUNCEMENT
OF FORCE-LEVEL CUTS

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[REDACTED] The present situation in the USSR suggests that the time may be propitious for an announcement of a further unilateral reduction of the Soviet armed forces.

The resolution of the Zhukov affair facilitates making such a decision for political and economic reasons at the expense of the military.

The Soviet announcement on 4 November that the USSR would no longer participate in talks in the present UN Disarmament Commission and Subcommittee suggests that Moscow is again seeking new ways to increase the pressure against the Western disarmament position. An announcement of a further unilateral cut would tend to focus on the West the dissatisfaction among UN members over lack of progress in the subcommittee discussions.

The present armaments posture of the USSR, with its earth-satellite successes supporting claims of satisfactory ICBM tests, would permit a force-level reduction without affecting world opinion of Moscow's enhanced position of strength.

The additional cut in the armed forces would facilitate more flexible allocations of manpower between industry and agriculture in the next few years, when the increases in labor supply contributed by population growth are expected to decline. Savings derived from a reduction in military manpower, according to present estimates, could be applied to investment in consumption, or permit a further expansion of expenditures for military programs beyond that already predicted. [REDACTED]

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2. KHRUSHCHEV'S 40TH ANNIVERSARY SPEECH



Khrushchev opened the 40th anniversary celebrations in Moscow on 6 November with a three-hour speech to a gathering of over 15,000 officials of the Communist world, including 61 foreign delegations and deposed leaders Kaganovich and Shepilov. Khrushchev reviewed in glowing colors 40 years of Soviet achievement and made confident predictions for the future. He touched lightly on domestic political problems, and spoke frequently--in general and conventional terms--of the principles of party unity and of the supremacy of the party in all spheres of Soviet life. Referring briefly to recent conflicts in the party's top ranks, he asserted that the central committee had upheld these principles in ousting the "anti-party group" in June and Zhukov in October.

In his first formal pronouncement on Stalin since the attack at the 20th party congress, Khrushchev struck the now familiar pose of balancing Stalin's vices against his merits. He asserted piously that Communists had the strength to admit mistakes, but rejected attempts to attribute Stalin's mistakes to the Soviet system. Attacking the concept of "national Communism," he damned Djilas and Nagy as revisionists whom the West described as "liberal Communists." Although he condemned the two ideological extremes of "revisionism" and "dogmatism," Khrushchev avoided entirely any discussion of the problem of nonconformity in Soviet intellectual life.

Khrushchev, in the first long-range, high-level, economic estimating since Stalin's 1946 forecasts for 1960-1965, gave preliminary figures for production 15 years from now for certain key industrial items, in support of his assertion that catching up with the United States is not a visionary aim, but an achievable goal. The projected growth, while impressive, generally implies an

annual rate of growth somewhat slower than that during 1950-1957. His forecast levels of output appear reasonable.

Specific 1957 performances appeared less impressive than Khrushchev's picture of the Soviet past and future. Both steel and electric power will register slight shortfalls from the modest 1957 plan, despite the moderate overfulfillment for total industrial production implied by Khrushchev's figures. He reaffirmed the economic policies and programs which had been cited in the September announcement of the decision to draft a long-term economic plan for the 1959-1965 period.

In the field of foreign relations, Khrushchev emphasized the importance of an understanding between the United States and the USSR and called for a "high-level meeting of representatives of capitalist and socialist countries to exclude war as a means of solving political questions," and to establish relations between states on the basis of peaceful coexistence.

Khrushchev sought to portray the Soviet Union as the champion of peace, in contrast to the West's alleged desire to "keep the world on the brink of war."

The confidence which marked Khrushchev's speech suggests that the Soviet leaders believe their recent technological achievements have given them a strong political initiative which will increase pressure on the West to make concessions. The Russians apparently believe they can, from their new "position of strength," isolate the United States and persuade America's allies that their interests dictate a more independent policy.

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4. MOSCOW MOVES TO DISCOURAGE POLISH ECONOMIC TIES WITH WEST

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The American embassy in Warsaw believes that a recent increase in Soviet funds available to Poland for large-scale purchases in the USSR will almost certainly arrest the trend of growing trade between Poland and the West. Poland has obtained an estimated 200,000,000 rubles as a result of Soviet agreement in September to pay for transit facilities used from 1946 to 1954. Settlement of this issue is presumably a part of the Soviet effort to lure Poland back into closer economic ties with the bloc.

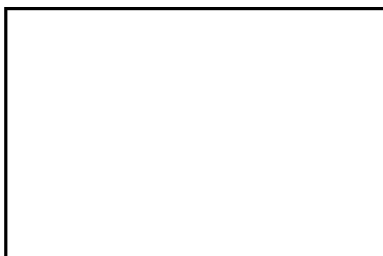
Polish consumers prefer Western goods, but payment difficulties, the exhaustion of Western short-term credit possibilities, and reduced prospects for Polish exports will force Poland to turn to the bloc for needed consumer goods.

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5. CZECH PRESIDENT'S ILLNESS

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The American embassy in Prague, commenting on the serious illness of 73-year-old Czechoslovak President Zapotocky, predicts that his death could lead to a showdown between Party First Secretary Novotny and Premier Siroky, the younger members of Czechoslovakia's ruling triumvirate. The embassy believes that a rivalry exists between these two leaders and that the apparent equilibrium in the upper levels of the Prague regime is based mainly on Zapotocky's influence.

[REDACTED]
Novotny, who was endorsed by Khrushchev last July, is an advocate of the softer internal policies generally associated with Khrushchev. Siroky, as well as other top Czechs, is usually identified with a Stalinist-type line.

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Although this potential for friction may exist, the Kremlin would almost certainly intervene to suppress any dispute which could affect the present stable conditions in Czechoslovakia. [REDACTED]

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6. DISCUSSION ON WEST GERMAN MISSILE PRODUCTION CONTINUES

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Recent reports that Bonn will be released from treaty restrictions on the production of guided missiles were inspired by British Foreign Secretary

Selwyn Lloyd's 1 November press conference in which he implied he might favor revision of the WEU treaty to allow Germany to participate in a joint NATO program for modern weapons production. In seeking an adequate response to increased Soviet missile capabilities, British government leaders, like those of many other European countries, are probably more open-minded on German missile production than at any time since 1945.

While Bonn expects a relaxation of treaty restrictions, it would probably not initiate a request without definite assurances of support from at least the UK and France. West German Foreign Minister Brentano stated on 4 November that he could not "anticipate our answer" if the question of missile production were raised in NATO or WEU meetings. The question is reported to be "under constant study" in Bonn.

Revocation of the missile restrictions would require a request from Bonn, followed by a similar request from SACEUR, and a two-thirds vote in the WEU council. The restrictions on production of atomic, bacteriological, and chemical warfare weapons, however, could not be lifted without negotiating a protocol to the London and Paris agreements, a process that would presumably require ratification by the seven national legislatures involved.

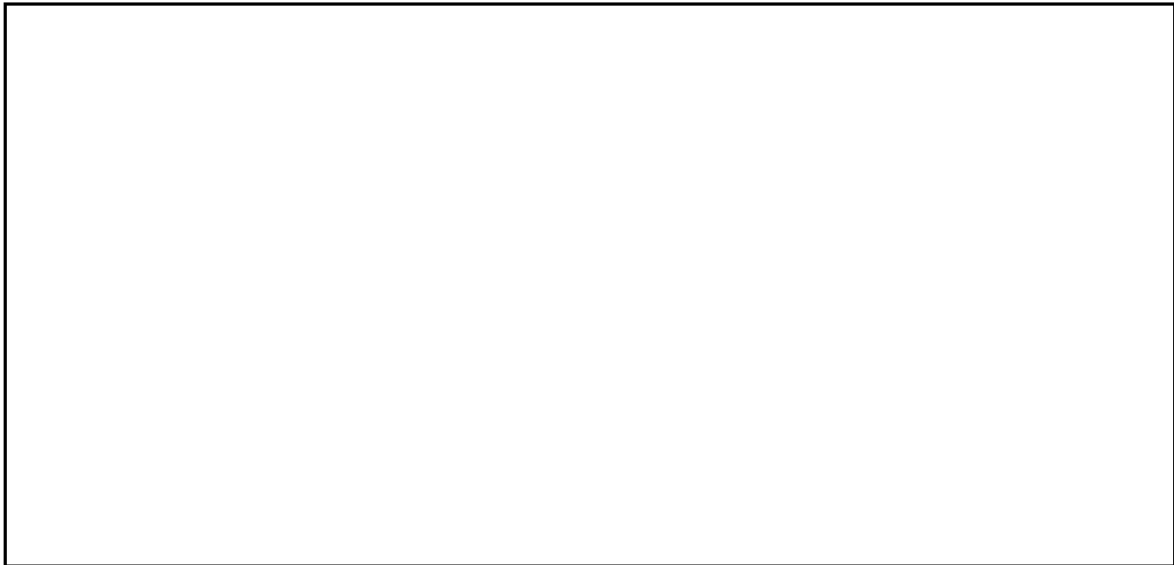
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8. VIOLENCE IN LEBANON



With President Chamoun out of the country on a visit to Spain and Greece and a number of ministers absent, foreign and domestic opposition elements may believe the time is opportune to unseat the Sulh cabinet, and possibly Chamoun. They have been encouraged by clashes on 3 November between police and Beirut municipal workers which resulted in the arrest of strike leaders, and the workers' case has been taken up by the opposition National Front in an effort to embarrass the government. The army, under the command of pro-Western General Shihab, is the key to the situation.

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9. DUTCH-AUSTRALIAN COOPERATION MAY
PROVOKE INDONESIAN REPRISALS

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The 6 November statement of high Dutch and Australian officials that they intend "to continue and strengthen" their cooperation on policy and administration in their respective territories in New Guinea demonstrates that The Hague--with strong Australian support--remains adamantly opposed to Indonesian demands for Netherlands New Guinea.

A Dutch official suggested that neither the statement nor the forthcoming talks would have any major impact in Indonesia since "no responsible Indonesian official thinks for a moment that the Netherlands will relinquish New Guinea." Recent developments in Indonesia, however, indicate that both The Hague and Canberra are underestimating the effect their negotiations will have against the background of the current Indonesian agitation over New Guinea. The American ambassador in Djakarta has warned that the Dutch-Australian announcement "might easily be the spark which sets off the explosion." He believes that Indonesian threats to break relations with The Hague and nationalize Dutch interests must be taken seriously.

The Indonesian Communist party and President Sukarno will seize on the joint talks to stimulate further public demands for extreme measures against the Netherlands. The second phase of Indonesia's "Regain West Irian" campaign will be launched on "Heroes Day"--10 November. Neither the police nor the Indonesian army plans to take special precautions against any violence which may result from the demonstrations ordered by Sukarno.

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10. PROSPECTS FOR RESTORATION OF SUKARNO-HATTA
PARTNERSHIP REMAIN DIM

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Indonesian Prime Minister Djuanda is encountering extreme difficulty in his efforts to restore an effective partnership between President Sukarno and former vice president Hatta, a development which he feels is the only course which can save Indonesia from fragmentation and the island of Java from Communist control.

Sukarno has made clear that he will not accept Hatta as prime minister, and there are increasing indications that Sukarno's leftist and Communist advisers are making every effort to bar Hatta from any important post in the government.

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This newly reaffirmed antagonism between the two men and their supporters is unlikely to be resolved by either the second national conference on 25 November or by the highly nationalistic campaign for Netherlands New Guinea.

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